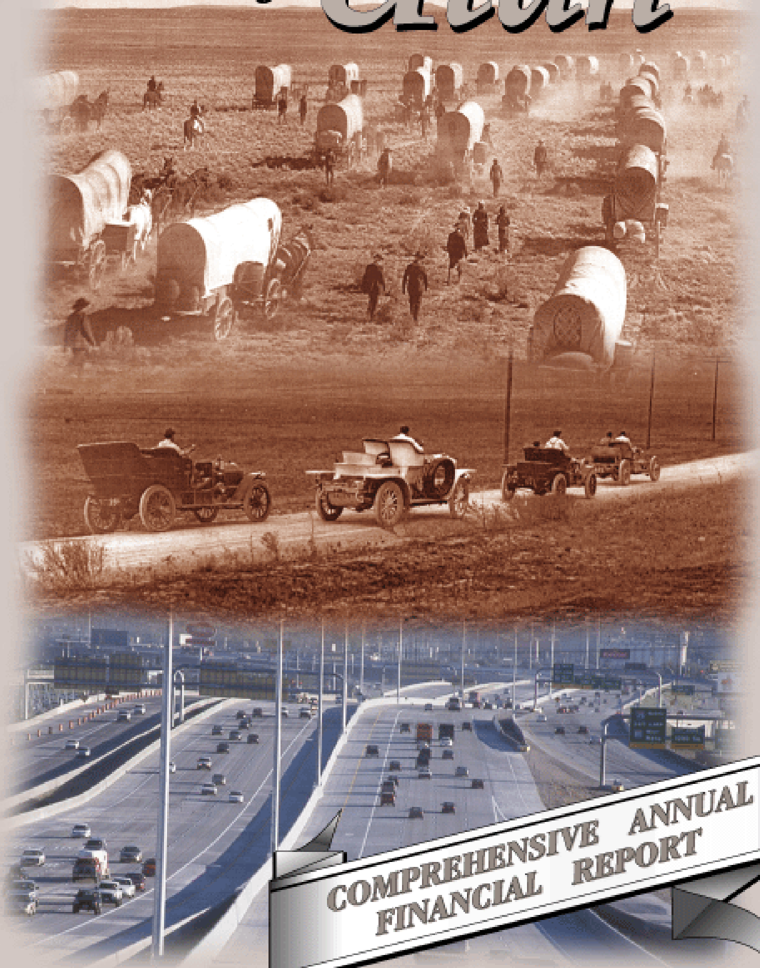
State of Utah



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2002

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2002

CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH

Michael O. Leavitt	Governor
Olene S. Walker	Lt. Governor
Auston G. Johnson, CPA	State Auditor
Edward T. Alter, CPA	State Treasurer
Mark L. Shurtleff	Attorney General
L. Alma “Al” Mansell	President of the Senate
Martin R. Stephens	Speaker of the House
Christine M. Durham	Chief Justice, Supreme Court

OTHER STATE OFFICIALS

S. Camille Anthony	Executive Director, Dept. of Administrative Services
Kim S. Thorne, CPA	Director, Division of Finance
Lynne N. Ward, CPA	Director, Office of Planning and Budget
John E. Massey	Legislative Fiscal Analyst
Wayne L. Welsh, CPA	Legislative Auditor General
Michael E. Christensen	Director, Legislative Research and General Counsel

ACKNOWLEDGMENTS

Report prepared by:
Division of Finance, Accounting Standards and Financial Reporting Section
John C. Reidhead, CPA
Eugene F. Baird
Lynn G. Bodrero, CPA
David N. Byg
Marcie Handy, CPA
Brenda W. Lee, CPA
Lynda B. McLane, CPA
Deborah S. Memmott
Ellen D. Morris
Gary E. Morris, CPA
Dan D. Olsen, CPA
David H. Pierce, CPA
Allen H. Rollo

Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2002

Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules (continued)

STATISTICAL SECTION

Index to the Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. As discussed in Note 2, the State implemented significant new financial reporting standards for the fiscal year ended June 30, 2002, which affect the comparability with reports issued in prior years. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: 1) the ability of the State to impose its will on that organization or; 2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, 211 State Capitol, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units are entities which are legally separate from the State but which are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of seven voting members who are appointed by the Governor, and the State Budget Officer or designee. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and rows in each of the government-wide statements to emphasize that they are legally separate from the State. These component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Governor-appointed board members can be replaced at will, except for colleges, universities, and the Comprehensive Health Insurance Pool, which are included as component units due to the level of oversight provided by the State.

The State's major discrete component units are:

- Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

- University of Utah and Utah State University — These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

- Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

- Heber Valley Historic Railroad Authority — The Authority is an independent state agency which maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

- Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

- Utah Science Center Authority — The Authority is an independent state agency created to provide a means to foster the development of science, arts, tourism, and cultural and educational facilities. Separate audited financial statements are not required or issued for the Authority.

- Utah Technology Finance Corporation — This is an independent corporation which encouraged and assisted in the growth of technological and small businesses throughout the State. The Corporation's enabling legislation has been repealed and the Corporation is currently being liquidated. During the year ended June 30, 2002, the Corporation transferred its non-State programs to an unrelated non-profit corporation and returned to the State a portion of the State's equity in the

Corporation. The Corporation will transfer any remaining liquidation proceeds to the State before the Corporation's final dissolution on June 30, 2003.

- Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the College of Applied Technology. Separate audited financial statements are not required or issued for the College of Applied Technology; however, its significant branch campuses each issue separate audited financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. A seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This fund is a nonprofit quasi-governmental corporation that provides workers' compensation insurance to private and public employers. The Governor appoints the Fund's board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. **Government-wide and Fund Financial Statements**

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund**. This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- **Uniform School Fund**. This special revenue fund accounts mainly for revenues and expenditures that support public elementary and secondary schools in the State.

- **Transportation Fund**. This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.

- **Centennial Highway Fund**. This special revenue fund was created by the Legislature to account for specific highway projects.

- **Trust Lands Fund**. This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used mainly to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

The proprietary funds follow all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the following enterprise funds have elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards: Student Assistance Programs (major enterprise fund) and Utah Dairy Commission (nonmajor enterprise fund).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs**. These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.

- **Unemployment Compensation Fund**. This fund pays claims for unemployment to eligible recipients.

- **Water Loan Programs**. This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); and correctional industries.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include employee health insurance, information technology, fleet operations, risk management, copy and mail services, debt collection, and property management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension Trust Funds — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Education Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals, such as fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

D. **Fiscal Year Ends**

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (a nonmajor enterprise fund), which have fiscal years ending December 31.

E. **Assets, Liabilities, and Net Assets/Fund Balances**

Cash and Cash Equivalents and Investments

Cash and investment management in the State is administered by the State Treasurer in accordance with the Money Management Act, Section 51–7 of the *Utah Code*. The Act specifies the investments that may be made, which are only high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The investments include variable rate corporate notes and obligations of U.S. government agencies which base their rates on standard quoted money market indexes that have a direct correlation to the federal funds rate and, therefore, there is very little market risk because the investments follow the normal swings of interest rates. The Pension Trust Funds; Utah Housing Corporation and Utah Technology Finance Corporation (component units); and Utah Public Employees Group Insurance (internal service fund) are exempt from the Act; however, they are governed statutorily by the prudent man rule. The Pension Trust Funds are invested in domestic and international equities and fixed income, corporate and government bonds, short-term securities, real estate and real estate mortgages, joint ventures, and venture capital.

- Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

- All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

- Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

- The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

- Utah Retirement Systems (pension trust funds) held two types of derivative financial instruments at yearend: futures and currency forwards. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 98 percent of their principal balance.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for the following which are recorded as expenditures when consumed: inventories for the Transportation Fund, and food stamps coupon inventories in the General Fund. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets are defined by the State as assets which cost $5 thousand or more when acquired and have an estimated useful life greater than one year. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3-15
Aircraft and Heavy Equipment	5-30
Buildings and Improvements	30-40
Land Improvements	5-20
Infrastructure	15-80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. Under this approach, depreciation expense is not recorded and only improvements which expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: 1) maintain an inventory of the assets and perform periodic condition assessments; 2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and 3) document that the assets are being preserved approximately at or above the condition level set by the State.

Most works of art and historical treasures are not capitalized or depreciated. These assets cannot be reasonably valued and have inexhaustible useful lives or are maintained in perpetuity. These assets include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, deferred revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees which are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates.

Long-term Liabilities

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments to the federal government at least once every five years over the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense on the government-wide Statement of Net Assets when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2002, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was $36.830 million, of which $32.633 million represents yield reduction payments and $4.197 million represents the estimated liabilities for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination.

Employees earn sick leave at a rate of four hours for each two week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination except employees eligible for retirement. Sick leave is expended when used. At retirement, for participating agencies, the State will pay an employee up to 25 percent of the employee's accumulated sick leave and will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee turns age 65, whichever comes first. The employee may use any remaining sick leave balances to acquire health insurance to age 65, and since fiscal year 1999, health insurance for the employee's spouse until they reach age 65, and Medicare supplement insurance after age 65 for both the employee and their spouse. An estimate of the liability for the above leave and retirement benefits has been recorded in the governmental activities column of the government-wide Statement of Net Assets.

The State maintains compensated absences and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds and private purpose trust funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

The total liability of the governmental activities for vacation leave and postemployment benefits is recorded in the government-wide Statement of Net Assets. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Notes 10 and 18 for additional information about the liability.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and other commodities, and food stamps. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2002, the State reported revenue and expenditures of $73.534 million for food assistance programs and $4.119 million for commodities in the General Fund, and $9.283 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions in governmental fund types are reported as expenditures in the appropriate function. Benefit costs applicable to proprietary fund types are reflected as expenses in the proprietary funds.

G. **Interfund Transactions**

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double-counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. ACCOUNTING CHANGES AND RESTATEMENTS

The State implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2002:

Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*,

Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*,

Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*,

Statement 38, *Certain Financial Statement Note Disclosures*, and

Interpretation 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Statement 34, as amended by Statement 37, establishes new financial reporting standards for state and local governments. The new standards significantly change the financial reporting model used by state governments, including changes in statement formats, fund types, and criteria for determining fund types. In addition to fund financial statements, government-wide financial statements presenting summarized information for governmental activities, business-type activities, and component units are now required. As discussed in Note 1, the government-wide financial statements are prepared using the accrual basis of accounting rather than the modified accrual basis of accounting used in the governmental fund financial statements. As a result of these new standards, fund reclassifications and adjustments to fund equities reported in the prior financial statements were required. Significant changes due to Statement 34 include requiring infrastructure assets (mainly roads and bridges) to be reported as capital assets, and requiring capital assets and general long-term obligations to be reported in the government-wide financial statements rather than in account groups. Infrastructure assets were previously excluded from the financial statements.

Statement 35 establishes new financial reporting standards for public colleges and universities within the reporting guidelines of Statement 34. All of the State's colleges and universities (component units) have adopted Statement 35. A significant change for colleges and universities is the requirement to depreciate capital assets. All but one of the State's colleges and universities previously did not recognize depreciation on capital assets.

Statement 38 requires certain note disclosures when Statement 34 is implemented.

As a result of additional guidance in Interpretation 6, liabilities for compensated absences and postemployment benefits previously reported in the General Fund, Uniform School Fund, and Transportation Fund are now reported only on the government-wide financial statements.

The provisions of these new standards have been incorporated into the financial statements and notes. The following table summarizes (in thousands) the changes to fund equities as previously reported and the beginning fund balances/net assets as restated and reported in these financial statements. These changes resulted primarily from implementing the new accounting standards. However, the Legislature created the College of Applied Technology (nonmajor component unit) effective for fiscal year 2002 and Applied Technology Centers became part of the newly created college. As a result, $93.808 million of net assets of Applied Technology Centers previously reported in the Uniform School Fund and general fixed assets account group were reclassified as net assets of component units.

Restatement of Beginning Fund Balance/Net Assets
(Expressed in Thousands)

	June 30, 2001 As Previously Reported	Changes in Accounting Principle: Fund Reclassifications	Changes in Accounting Principle: Other	June 30, 2001 As Restated
Governmental Funds and Activities				
Major Funds:				
General Fund	$ 708,067	$ (286,759)	$ 146,502	$ 567,810
Uniform School Fund	218,745	(4,059)	28,041	242,727
Transportation Fund	95,302	—	30,778	126,080
Centennial Highway Fund	63,933	—	—	63,933
Trust Lands	—	372,224	(11,364)	360,860
Total Major Governmental Funds	1,086,047	81,406	193,957	1,361,410
Nonmajor Funds:				
Special Revenue Funds	30,566	62,103	1	92,670
Capital Projects	128,340	—	—	128,340
Debt Service	11,475	(219)	854	12,110
Total Nonmajor Governmental Funds	170,381	61,884	855	233,120
Total Governmental Funds— Fund Balances	1,256,428	143,290	194,812	1,594,530
Governmental Activities Adjustments:				
Capital Assets, Net of Depreciation	—	1,322,959	7,378,732	8,701,691
Revenue Recognition	—	—	382,314	382,314
Long-term Bonds, Notes and Leases Payable	—	(1,399,367)	(2,061)	(1,401,428)
Long-term Liabilities for Compensated Absences and Postemployment Benefits	—	(41,234)	(265,709)	(306,943)
Internal Service Fund Conversion	—	115,881	—	115,881
Total Governmental Activities Adjustments	—	(1,761)	7,493,276	7,491,515
Total Governmental Activities—Net Assets	$ 1,256,428	$ 141,529	$ 7,688,088	$ 9,086,045
Proprietary Funds and Business-type Activities				
Major Funds:				
Student Assistance Programs	$ 178,055	$ —	$ —	$ 178,055
Unemployment Compensation	—	599,964	19,009	618,973
Water Loan Programs	—	457,942	(16)	457,926
Nonmajor Funds:				
Nonmajor Enterprise Funds	65,336	237,821	(62)	303,095
Funds Previously Reported as Enterprise Funds	8,127	(8,127)	—	0
Total Enterprise Funds	251,518	1,287,600	18,931	1,558,049
Internal Service Fund Reclassification	412,541	(412,541)	—	0
Internal Service Fund Conversion	115,881	(115,881)	—	0
Total Enterprise Funds and Business-type Activities—Net Assets	$ 779,940	$ 759,178	$ 18,931	$ 1,558,049

continues below

Restatement of Beginning Fund Balance/Net Assets
(Expressed in Thousands)

	June 30, 2001 As Previously Reported	Changes in Accounting Principle: Fund Reclassifications	Changes in Accounting Principle: Other	June 30, 2001 As Restated
Fiduciary Funds				
Pension Trust Fund	$ 14,583,252	$ 215,605	$ —	$ 14,798,857
Investment Trust Fund	3,048,338	—	—	3,048,338
Private Purpose Trust Funds	—	(258,565)	13,061	(245,504)
Funds Previously Reported as Expendable Trust Funds	611,971	(611,971)	—	0
Fund Previously Reported as Nonexpendable Trust Fund	372,224	(372,224)	—	0
Total Fiduciary Funds—Net Assets	$ 18,615,785	$ (1,027,155)	$ 13,061	$ 17,601,691
Agency Funds—Total Assets	$ 70,829	$ 5,839	$ (2,685)	$ 73,983
Component Units				
Component Units—Net Assets	$ 3,845,097	$ 93,808	$ (1,065,614)	$ 2,873,291
Account Groups				
General Fixed Assets	$ 1,417,730	$ (1,417,730)	$ —	$ 0
General Long-term Obligations	(1,444,531)	1,444,531	—	0
Total Account Groups	$ (26,801)	$ 26,801	$ 0	$ 0

NOTE 3. DEPOSITS AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolio that represents the cash and cash equivalents and investments on the June 30, 2002, balance sheet. Investing is governed by the prudent man rule, in accordance with the Money Management Act, Section 51–7, *Utah Code Annotated, 1953,* as amended. Except certain repurchase agreements, all securities of the primary government purchased or held and all evidence of deposits and investments must be in the custody of the State, or may be held by an agent in the State's name. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

A. Deposits

At June 30, 2002, the carrying amount of the State's deposits for the primary government was $303.906 million and $82.707 million for the component units. At June 30, 2002, the bank balance was $204.412 million and $110.911 million for the primary government and component units, respectively. Of the bank balance for the primary government, $4.009 million was covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the State's agent in the name of the State. Of the bank balance for the component units, $5.778 million was covered by the FDIC or by collateral held by the State's agent in the name of the State. The remaining deposits for the primary government and component units were uninsured and uncollateralized and were held by various financial institutions. The State of Utah does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishes limits for the deposit of public money at individual financial institutions.

B. Investments

Statutes authorize the State to invest in negotiable and non-negotiable certificates of deposit; repurchase and reverse repurchase agreements; commercial paper; bankers' acceptances; obligations of the U.S. Treasury and certain agencies of the U.S. Government; corporate obligations; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; shares or certificates in open-end managed money market mutual funds; and various other investments. Authorized investments are subject to certain restrictions. Certain state agencies and component units are also allowed by statute to invest in investment contracts, equity securities, real estate, and other investments. In addition to investments authorized by statute, bond proceeds are invested in other investments in accordance with the applicable bond resolutions. Investment types for Pension Trust Funds and certain other funds and component units are not restricted by state statute.

The following table provides information about the credit and market risks associated with the State's investments. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the State's name.

Credit and Market Risks of Investments –Primary Government
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Repurchase Agreements	$ —	$ 331	$ 33,397	$ 33,728
U.S. Government Securities	832,460	4,153	—	836,613
Negotiable Certificates of Deposit	105	—	—	105
Commercial Paper	2,985	—	—	2,985
Corporate Bonds and Notes	7,263,166	—	—	7,263,166
Equity Securities	6,649,696	—	—	6,649,696
Total	$ 14,748,412	$ 4,484	$ 33,397	14,786,293
Mutual and Escrow Funds				2,067,790
Investment Contracts				62,618
Investment in U.S. Treasury Investment Pool				533,654
Component Units Investment in Primary Government's Investment Pool				(380,296)
Real Estate				506,256
Real Estate Mortgages				3,363
Real Estate Joint Ventures				571,842
Venture Capital				677,600
Investments Held by Broker-Dealers Under Securities Lending Program:				
U.S. Government Securities				441,748
Equity Securities				907,058
Corporate Bonds and Notes				209,511
Securities Lending Short-Term Collateral Investment Pool				1,612,238
Total Investments				$ 21,999,675

The Pension Trust Funds own approximately 68 percent of the investments that are in Category 1.

Credit and Market Risks of Investments –Component Units
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Repurchase Agreements	$ —	$ —	$ 11,279	$ 11,279
U.S. Government Securities	224,610	104,644	29,015	358,269
Negotiable Certificates of Deposit	2,897	—	504	3,401
Corporate Bonds and Notes	1,236	1,284	1,478	3,998
Equity Securities	24,855	14,765	12,253	51,873
Municipal and Public Utility Bonds	988	—	648	1,636
Total	$ 254,586	$ 120,693	$ 55,177	430,456
Mutual and Escrow Funds				522,709
Investment Contracts				189,415
Investment in Primary Government's Investment Pool				380,296
Real Estate				3,889
Total Investments				$ 1,526,765

C. **Securities Lending**

The Utah Retirement Systems (pension trust funds) and the Utah Public Employees Group Insurance Program (internal service funds) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial agent is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records and are presented as unclassified in the preceding summary of custodial risk. Corresponding assets and liabilities for collateral received, which can be pledged or sold without a borrower default, are recorded at the fair value. At yearend there was no collateral which cannot be pledged or sold without a borrower default.

At yearend neither the Utah Retirement Systems nor Utah Public Employees Group Insurance Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were $1.546 billion and $12.510 million, respectively, and the collateral received for those securities on loan was $1.602 billion and $12.813 million, respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool. This cannot be determined by the state entities. Since the securities lending collateral is in a pool maintained by the custodial bank, it was not necessary to report the total income and expenses of securities lending.

D. **Derivative Financial Instruments**

The Utah Retirement Systems (pension trust funds) invests in derivative financial investments as authorized by Board policy. As of yearend, the Systems had two types of derivative financial instruments: futures and currency forwards.

Futures represent commitments to purchase (asset) or sell (liability) securities or money market instruments at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing the Systems' credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At yearend the Systems' investments had the following future balances (expressed in millions):

		Value Covered By Contract
Long-equity futures	$	51.470
Short-equity futures	$	(34.557)
Long-fixed income futures	$	80.071
Short-fixed income futures	$	(21.271)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At yearend the Systems' investments included the following currency forwards balances (expressed in millions):

Currency forwards (*pending foreign exchange purchases)*	$	827.573
Currency forwards (*pending foreign exchange sales)*	$	(832.652)

The Utah Housing Corporation enters into various rate swap contracts as part of its overall funding strategy. The objective of these financial instruments is to increase the volume of funding available to purchase qualified homes under the Corporation's low to moderate-income programs. The Corporation's ability to keep its Single-Family program active without lags in funding is critical to its success. The federally imposed volume cap on tax-exempt bond issuances is inadequate to provide the resources currently demanded by these programs. To meet these demands and increase its funding capabilities, the Corporation sells variable rate bonds. Floating-to-fixed interest rate swap contracts allows the Corporation to manage the inherent interest rate risk associated with variable rate debt. The amount of these contracts at June 30, 2002, is $253.4 million.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51–7, *Utah Code Annotated, 1953,* as amended. The Act establishes the Money Management Council which oversees the activities of the State Treasurer and the PTIF. The Act details the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants for the fiscal year ended June 30, 2002, are as follows:

Public Treasurer's Investment Fund
Statement of Net Assets
June 30, 2002
(*Expressed in Thousands*)

Assets	
Cash and Cash Equivalents	$ 379,478
Investments	4,846,715
Interest Receivable	17,656
Net Assets	$ 5,243,849
Net Assets Consist of:	
External Participant Account Balances	$ 3,237,979
Internal Participant Account Balances:	
Primary Government	1,622,588
Component Units	380,296
Undistributed Reserves and Unrealized Gains/Losses	2,986
Net Assets	$ 5,243,849
Participant Account Balance Net Asset Valuation Factor	.997257

Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2002
(*Expressed in Thousands*)

Additions	
Pool Participant Deposits	$ 7,727,760
Investment Income:	
Investment Earnings	152,366
Fair Value Increases (Decreases)	(14,729)
Total Investment Income	137,637
Less Administrative Expenses	130
Net Investment Income	137,507
Total Additions	7,865,267
Deductions	
Pool Participant Withdrawals	7,259,392
Earnings Distributions	145,614
Total Deductions	7,405,006
Net Increase From Operations	460,261
Net Assets	
Beginning of Year	4,783,588
Net Assets – End of Year	$ 5,243,849

Deposits and Investments

The following disclosure of deposits and investments is for the Public Treasurer's Investment Fund, which includes external and internal participants. These assets are also included in Note 3, disclosure of deposits and investments for the state entity as a whole. Information on the type of deposits and investments and how they are held is disclosed in Note 3. At June 30, 2002, the PTIF investments included certificates of deposit of $159.3 million that qualify as deposits. Of this amount, $900 thousand was covered by the Federal Deposit Insurance Corporation (FDIC) and $158.4 million was uninsured and uncollateralized and was held by various financial institutions. The following schedule provides information about the credit and market risks associated with the State's investments. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

Public Treasurer's Investment Fund
Credit and Market Risks of Investments
June 30, 2002
(*Expressed in Thousands*)

	Category 1	Fair Value
Money Market Funds	$ 344,978	$ 344,978
U.S. Government Securities	796,065	796,065
Corporate Bonds and Notes	3,925,850	3,925,850
Total Investments	$ 5,066,893	$ 5,066,893

Public Treasurer's Investment Fund Portfolio Statistics:

June 30, 2002

	Range of Yields	Weighted Average Maturity
Money Market Funds	1.80% – 2.70%	1 day
Certificates of Deposit	2% – 2.75%	19.75 days
U.S. Government Securities	1.70% – 4.125%	202.47 days
Corporate Bonds and Notes	1.84% – 4.05 %	39.60 days

June 30, 2002

	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund	2.34%	60.83 days

NOTE 5. RECEIVABLES

Receivables as of June 30, 2002, consisted of the following (in thousands):

	Accounts Receivable					
	Federal	Customer	Other	Interest	Taxes	Notes/ Mortgages
Governmental Activities:						
General Fund	$ 203,679	$ 175,516	$ 25,578	$ 16	$ 272,754	$ 6,379
Uniform School Fund	25,583	—	271	—	363,520	6,128
Transportation Fund	69,961	—	8,534	—	58,596	421
Centennial Highway Fund	1,490	—	—	—	777	—
Trust Lands	—	—	11,919	638	—	8,891
Nonmajor Funds	—	27,923	7	16	—	539
Internal Service Funds	—	18,318	—	775	—	—
Fiduciary Funds	—	—	2,338	—	—	—
Total Receivables	300,713	221,757	48,647	1,445	695,647	22,358
Less Allowance for Uncollectibles						
General Fund	—	(52,820)	—	—	(15,455)	(112)
Uniform School Fund	—	—	—	—	(98,439)	—
Transportation Fund	—	—	(200)	—	(637)	—
Centennial Highway Fund	—	—	—	—	(51)	—
Internal Service Funds	—	(129)	—	—	—	—
Receivables, net	$ 300,713	$ 168,808	$ 48,447	$ 1,445	$ 581,065	$ 22,246
Current Receivables	$ 300,713	$ 118,128	$ 47,281	$ 1,445	$ 539,473	$ 3,779
Noncurrent Receivables	—	50,680	1,166	—	41,592	18,647
Total Receivables (net)	$ 300,713	$ 168,808	$ 48,447	$ 1,445	$ 581,065	$ 22,246
Business-type Activities:						
Student Assistance Programs	$ 10,212	$ 1,733	$ —	$ 23,991	$ —	$ 1,036,555
Unemployment Compensation Fund	1,439	35,639	—	—	—	—
Water Loan Programs	—	—	112	7,778	2,669	424,820
Nonmajor Funds	—	5,914	1,200	3,252	—	227,475
Total Receivables	11,651	43,286	1,312	35,021	2,669	1,688,850
Less Allowance for Uncollectibles						
Student Assistance Programs	—	—	—	—	—	(3,487)
Unemployment Compensation	—	(10,335)	—	—	—	—
Water Loan Programs	—	—	—	—	(94)	—
Receivables, net	$ 11,651	$ 32,951	$ 1,312	$ 35,021	$ 2,575	$ 1,685,363

Accounts receivable balances are an aggregation of amounts due from the federal government, customers and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds which were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2002, were $1.276 billion for major component units and $53.186 million for nonmajor component units, net of an allowance for doubtful accounts of $44.609 million and $812 thousand, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2002, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	$ 52,519	$ 109,123	$ 36,189	$ 78,548	$ 5,803	$ —	$ 282,182
Uniform School Fund	3,094	2,854	3,646	19,769	49,019	—	78,382
Transportation Fund	6,488	122	67,786	31,904	893	—	107,193
Centennial Highway Fund	—	—	273	—	—	—	273
Nonmajor Funds	32	—	15,103	—	—	27,453	42,588
Internal Service Funds	7,217	—	8,572	1,834	—	6	17,629
Adjustments:							
Fiduciary Funds	—	—	—	4,657	—	—	4,657
Other	—	—	—	—	—	1,664	1,664
Total Governmental Activities	$ 69,350	$ 112,099	$ 131,569	$ 136,712	$ 55,715	$ 29,123	$ 534,568
Business-type Activities:							
Student Assistance Programs	$ 1,770	$ —	$ 6,908	$ 17,343	$ —	$ 3,394	$ 29,415
Unemployment Compensation Fund	—	529	188	—	—	—	717
Water Loan Programs	—	—	331	—	—	39	370
Nonmajor Funds	1,281	—	7,520	1,165	—	139	10,105
Adjustments:							
Fiduciary Funds	—	—	—	13	—	—	13
Other	—	—	—	—	—	(12)	(12)
Total Business-type Activities	$ 3,051	$ 529	$ 14,947	$ 18,521	$ 0	$ 3,560	$ 40,608

Accounts payable and accrued liability balances are an aggregration of amounts due to: 1) state employees for salaries/benefits; 2) service providers for childcare, job services and health services; 3) vendors and miscellaneous suppliers; 4) local and federal governments for services; 5) individuals and others as a result of tax overpayments; and 6) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds which were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS

Interfund Balances

Interfund balances at June 30, 2002, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund	$ 3,066
Transportation Fund	1,084
Nonmajor Governmental Funds	1,011
Unemployment Compensation Fund	1,302
Water Loan Programs	43
Nonmajor Enterprise Funds	9,833
Internal Service Funds	2,678
Fiduciary Funds	2,136
Total due to General Fund from other funds	$ 21,153
Due to Uniform School Fund from:	
General Fund	431
Nonmajor Governmental Funds	9
Unemployment Compensation Fund	687
Nonmajor Enterprise Funds	1,029
Internal Service Funds	31
Total due to Uniform School Fund from other funds	$ 2,187
Due to Transportation Fund from:	
General Fund	21
Uniform School Fund	2
Centennial Highway Fund	26,416
Nonmajor Governmental Funds	3
Nonmajor Enterprise Funds	8
Internal Service Funds	103
Fiduciary Funds	200
Total due to Transportation Fund from other funds	$ 26,753
Due to Centennial Highway Fund from Transportation Fund	$ 1,473
Due to Trust Lands from Nonmajor Enterprise Funds	$ 2,712
Due to Nonmajor Governmental Funds from:	
General Fund	2,401
Transportation Fund	36
Nonmajor Governmental Funds	97
Nonmajor Enterprise Funds	12
Internal Service Funds	61
Total due to Nonmajor Governmental Funds from other funds	$ 2,607
Due to Water Loan Programs from:	
General Fund	259
Nonmajor Governmental Funds	132
Nonmajor Enterprise Funds	25
Total due to Water Loan Programs from other funds	$ 416
Due to Nonmajor Enterprise Funds from:	
General Fund	877
Uniform School Fund	16
Transportation Fund	139
Nonmajor Governmental Funds	11,055
Internal Service Funds	41
Total due to Nonmajor Enterprise Funds from other funds	$ 12,128
Due to Internal Service Funds from:	
General Fund	9,306
Uniform School Fund	250
Transportation Fund	2,116
Nonmajor Governmental Funds	620
Nonmajor Enterprise Funds	157
Internal Service Funds	216
Fiduciary Funds	2
Total due to Internal Service Funds from other funds	$ 12,667
Due to Fiduciary Funds from:	
General Fund	207
Transportation Fund	4,412
Nonmajor Governmental Funds	30
Trust Lands	7
Water Loan Programs	11
Nonmajor Enterprise Funds	2
Internal Service Funds	1
Total due to Fiduciary Funds from other funds	$ 4,670
Total Due to/Due froms	$ 86,766

These balances resulted from the time lags between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2002, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds	$ 44,638
Payable to Internal Service Funds from Centennial Highway Fund	2,478
Payable to Nonmajor Enterprise Funds from Internal Service Funds	80
Total Interfund Loans Receivable/Payable	$ 47,196

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance of $47.196 million includes $21.985 million which is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 561,173	$ 46,459	$ (367)	$ 607,265
Infrastructure	7,186,028	161,546	(1,318)	7,346,256
Construction-In-Progress	234,170	290,044	(264,303)	259,911
Total Capital Assets not being Depreciated	7,981,371	498,049	(265,988)	8,213,432
Capital Assets being Depreciated:				
Buildings and Improvements	895,659	22,578	(2,714)	915,523
Infrastructure	9,386	2,187	(5)	11,568
Machinery and Equipment	434,075	44,766	(44,669)	434,172
Total Capital Assets being Depreciated	1,339,120	69,531	(47,388)	1,361,263
Less Accumulated Depreciation for:				
Buildings and Improvements	(260,684)	(24,847)	2,120	(283,411)
Infrastructure	(2,992)	(373)	—	(3,365)
Machinery and Equipment	(262,603)	(43,220)	39,068	(266,755)
Total Accumulated Depreciation	(526,279)	(68,440)	41,188	(553,531)
Total Capital Assets being Depreciated, Net	812,841	1,091	6,200	807,732
Governmental Activity Capital Assets, Net	$ 8,794,212	$ 499,140	$(272,188)	$ 9,021,164
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 10,352	$ 2,359	$ (516)	$ 12,195
Construction-In-Progress	300	880	(27)	1,153
Total Capital Assets not being Depreciated	10,652	3,239	(543)	13,348
Capital Assets being Depreciated:				
Buildings and Improvements	22,564	8,067	(48)	30,583
Machinery and Equipment	10,981	928	(925)	10,984
Total Capital Assets being Depreciated	33,545	8,995	(973)	41,567
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,277)	(661)	44	(4,894)
Machinery and Equipment	(6,931)	(1,616)	599	(7,948)
Total Accumulated Depreciation	(11,208)	(2,277)	643	(12,842)
Total Capital Assets being Depreciated, Net	22,337	6,718	(330)	28,725
Business-type Activity Capital Assets, Net	$ 32,989	$ 9,957	$ (873)	$ 42,073

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and “transferred” to the colleges and universities. For fiscal year 2002, $78.53 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building “transfers” are reported as higher education expenses of governmental activities and as program revenues of component units.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	$ 8,101
Human Services and Youth Corrections	4,397
Corrections, Adult	5,911
Public Safety	2,748
Courts	4,571
Health and Environmental Quality	2,139
Higher Education	1
Employment and Family Services	1,947
Natural Resources	4,978
Community and Economic Development	494
Business, Labor, and Agriculture	1,212
Public Education	947
Transportation	10,869
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of the assets	20,125
Total	$ 68,440

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:					
Land and Related Assets	$ 250	$ 17,267	$ 9,622	$ 54,395	$ 81,534
Construction-In-Progress	—	134,054	14,355	18,635	167,044
Total Capital Assets not being Depreciated	250	151,321	23,977	73,030	248,578
Capital Assets being Depreciated:					
Building and Improvements	1,302	952,392	316,437	761,001	2,031,132
Infrastructure	—	93,408	32,826	41,461	167,695
Machinery and Equipment	1,055	554,149	143,741	146,439	845,384
Total Capital Assets being Depreciated	2,357	1,599,949	493,004	948,901	3,044,211
Less Total Accumulated Depreciation	(1,370)	(723,459)	(209,936)	(338,256)	(1,273,021)
Total Capital Assets being Depreciated, Net	987	876,490	283,068	610,645	1,771,190
Discretely Presented Component Units – Capital Assets, Net	$ 1,237	$ 1,027,811	$ 307,045	$ 683,675	$ 2,019,768

The State had long-term construction project commitments totaling $164.301 million at June 30, 2002. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Fund (a nonmajor governmental fund):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
01020	Four Campus Classroom Project	$ 49,513
01074	New Legislative Buildings	38,911
00253	Snow College – Performing Arts Building	14,021
98239	State Hospital – Rampton Building Phase II	9,745
99219	USU – Edith Bowen School Renovation/Expansion	9,138
01084	Soldier Hollow Golf Course	7,722
01007	ABC – Warehouse Expansion	7,208
00017	Courts – New Logan Facility	6,778
97097	State Capitol Remodel Planning/Design	2,025
01105	Dixie College – Gardner Center Food Services Addition	1,618
01026	USU – Natural Resources Building II Renovation	1,181
—	All Others	16,441
	Total Commitments	$ 164,301

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases that in substance are purchases are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were $1.148 million in principal and $1.205 million in interest for fiscal year 2002. The historical cost and accumulated depreciation of the primary government's assets acquired through capital leases were $22.8 million and $5.6 million, respectively, as of June 30, 2002.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2002 were $31.163 million for the primary government and $17.609 million for component units. For fiscal year 2001, the operating lease expenditures were $26.335 million for the primary government and $13.330 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2002, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

	Operating Leases			Capital Leases			
				Primary Government			
Fiscal Year	**Primary Government**	**Component Units**	**Total**	**Governmental Activities**	**Business-type Activities**	**Component Units**	**Total**
2003	$ 17,827	$ 15,829	$ 33,656	$ 2,365	$ 83	$ 15,797	$ 18,245
2004	15,348	13,854	29,202	2,358	20	14,335	16,713
2005	11,036	12,021	23,057	2,365	—	9,873	12,238
2006	8,690	10,588	19,278	2,361	—	6,803	9,164
2007	4,749	8,697	13,446	2,280	—	4,733	7,013
2008–2012	5,848	26,145	31,993	6,537	—	46,889	53,426
2013–2017	1,786	4,810	6,596	2,365	—	1,256	3,621
2018–2022	338	199	537	1,024	—	—	1,024
2023–2027	160	156	316	611	—	—	611
2028–2032	—	45	45	—	—	—	—
Total Future Minimum Lease Payments	$ 65,782	$ 92,344	$ 158,126	22,266	103	99,686	122,055
Less Amounts Representing Interest				(7,240)	(7)	(22,299)	(29,546)
Present Value of Future Minimum Lease Payments				$ 15,026	$ 96	$ 77,387	$ 92,509

NOTE 10. LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2002, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	$ 1,146,000	$ 629,200	$ (300,800)	$ 1,474,400	$ 97,550
State Building Ownership Authority Lease Revenue Bonds	238,278	115,633	(11,533)	342,378	12,143
Net Unamortized Premiums/(Discounts)	—	29,153	(1,511)	27,642	—
Capital Leases (Note 9)	16,174	—	(1,148)	15,026	1,193
Compensated Absences (Notes 1 and 18)	127,142	59,633	(51,234)	135,541	56,585
Postemployment Benefits (Note 18)	179,801	44,386	(10,554)	213,633	10,544
Claims (Note 19)	118,726	309,131	(301,148)	126,709	50,891
Arbitrage Liability (Note 1)	854	7	(762)	99	—
Total Governmental Long-term Liabilities	$ 1,826,975	$ 1,187,143	$ (678,690)	$ 2,335,428	$ 228,906
Business-type Activities					
Revenue Bonds	$ 1,041,180	$ 202,360	$ (12,080)	$ 1,231,460	$ 37,605
State Building Ownership Authority Lease Revenue Bonds	11,800	11,540	(482)	22,858	517
Net Unamortized Premiums/(Discounts)	(11)	293	(13)	269	—
Capital Leases (Note 9)	168	—	(72)	96	83
Arbitrage Liability (Note 1)	31,850	5,689	(709)	36,830	12
Total Business-type Long-term Liabilities	$ 1,084,987	$ 219,882	$ (13,356)	$ 1,291,513	$ 38,217
Component Units					
Revenue Bonds	$ 1,453,935	$ 332,706	$ (212,034)	$ 1,574,607	$ 121,812
Net Unamortized Premiums/(Discounts)	(90)	193	(11)	92	—
Capital Leases/Contracts Payable (Notes 9 and 10)	87,373	24,481	(30,934)	80,920	12,059
Notes Payable	23,339	5,990	(3,786)	25,543	7,248
Leave/Postemployment Benefits (Notes 1 and 18)	56,733	25,661	(15,672)	66,722	18,275
Total Component Unit Long-term Liabilities	$ 1,621,290	$ 389,031	$ (262,437)	$ 1,747,884	$ 159,394

Compensated absences and postemployment benefits liabilities of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the applicable internal service fund.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities, highways, and water management for governmental activities. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2002, the State had $85.25 million and $56 million of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

During fiscal year 2002 the State issued $348 million Series 2001 B general obligation bonds. The proceeds were used to refund $208 million of variable rate bonds, provide funds for certain highway projects, and various other construction projects. The State also issued $281.2 million Series 2002 A general obligation bonds. The proceeds were used for various state building and highway projects.

During fiscal year 2002, the State's average interest rate for the Series 1999 A & C variable rate bonds was 1.61 percent, there is no stated minimum rate, but the maximum rate is 10 percent. The rate on the bonds is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the general obligation bond debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 1.15 percent, which was the rate in effect at yearend.

General Obligation Bonds Payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2002
1996 Capital Facility Issue	07/01/96	2002	5.00%	$ 20,000	$ 20,000
1997 ABCDE Highway/Capital Facility Issue	07/01/97	2001–2012	4.80% to 5.50%	$ 200,000	191,750
1997 F Highway Issue	08/01/97	2001–2012	5.00% to 5.50%	$ 205,000	192,375
1998 A Highway/Capital Facility Issue	07/07/98	2001–2012	5.0%	$ 265,000	238,075
1999 A & C Highway Issue	05/20/99	2012–2013	variable	$ 358,000	150,000
1999 E Capital Facility Issue	07/01/99	2004	4.50%	$ 38,000	38,000
2001 A Capital Facility Issue	01/24/01	2004	4.0%	$ 15,000	15,000
2001 B Highway/Capital Facility Issue	07/02/01	2004-2014	4.50%	$ 348,000	348,000
2002 A Highway/Capital Facility Issue	06/27/02	2003-2015	3.00% to 5.25%	$ 281,200	281,200
Total General Obligation Bonds Outstanding					1,474,400
Plus Unamortized Premium					23,971
Total General Obligation Bonds Payable					$ 1,498,371

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 1996 Capital Facility	1997 A–E Highway/ Capital Facility	1997 F Highway Bonds	1998 A Highway/ Capital Facility	1999 A&C Highway Bonds	1999 E Capital Facility
2003	$ 20,000	$ 33,700	$ 13,325	$ 30,525	$ —	$ —
2004	—	49,175	14,075	38,150	—	—
2005	—	9,675	14,825	14,975	—	38,000
2006	—	10,200	15,625	15,850	—	—
2007	—	10,775	16,475	16,775	—	—
2008–2012	—	63,325	95,925	98,800	—	—
2013–2017	—	14,900	22,125	23,000	150,000	—
Total	$ 20,000	$ 191,750	$ 192,375	$ 238,075	$ 150,000	$ 38,000

Continues Below

Fiscal Year	Principal: 2001 A Capital Facility	2001 B Highway/ Capital Facility	2002 A Highway/ Capital Facility	Total Principal Required	Interest Required	Total Amount Required
2003	$ —	$ —	$ —	$ 97,550	$ 61,599	$ 159,149
2004	—	—	14,160	115,560	55,859	171,419
2005	15,000	41,425	4,850	138,750	49,443	188,193
2006	—	34,900	45,740	122,315	43,373	165,688
2007	—	33,250	48,075	125,350	37,135	162,485
2008–2012	—	188,800	74,175	521,025	107,390	628,415
2013–2017	—	49,625	94,200	353,850	16,055	369,905
Total	$ 15,000	$ 348,000	$ 281,200	$ 1,474,400	$ 370,854	$ 1,845,254

C. **Revenue Bonds**

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the State's Water Loan Programs, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies. The bonds are secured by the facilities, and repayment is made from lease income. The outstanding bonds payable at June 30, 2002, are reported as a long-term liability of the governmental activities, except for $21.844 million and $1.235 million which are reported in Alcoholic Beverage Control Fund, and Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2002, the average interest rate for the SBOA Series 2001 C variable rate bonds was 1.35 percent (based on an annualized rate from the bonds issuance), there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 1.15 percent, which was the rate in effect at yearend.

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Fund and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget, that would otherwise be expended for rent.

The Student Assistance Programs have $240.555 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds which are set by an auction procedure every 28 days in the amount of $312.1 million and $537.6 million of bonds which are auctioned every 35 days.

The State's water loan programs have issued revolving loan recapitalization program bonds to provide capital for the State's revolving loan programs, and subsequently has refunded one of the bonds. The bonds are secured by and repayment is made from the collection of the revolving loan programs' notes receivables.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2002
Utah Housing Corporation Issues	1986–2002	2002–2044	2.55% to 10.55%	$ 2,469,052	$ 1,227,422
Colleges and Universities Revenue Bonds	1987–2002	2003–2031	2.5% to 8.49%	$ 451,365	347,185
Total Revenue Bonds Outstanding					1,574,607
Colleges and Universities Add Unamortized Premiums/Discounts					92
Total Revenue Bonds Payable					$ 1,574,699

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2002
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A	07/15/92	1993–2011	5.30% to 5.75%	$ 26,200	$ 17,095
Series 1992 B	07/15/92	1994–2011	4.0% to 6.0%	$ 1,380	930
Series 1993 A	12/01/93	1995–2013	4.5% to 5.25%	$ 6,230	4,265
Series 1993 B	12/01/93	1995–2014	4.5% to 5.25%	$ 8,160	5,790
Series 1994 A	09/01/94	1995–2018	5.0% to 6.25%	$ 27,465	4,935
Series 1995 A	07/01/95	1996–2018	5.0% to 5.75%	$ 92,260	18,715
Series 1996 A	07/01/96	1997–2019	5.5% to 6.0%	$ 42,895	8,705
Series 1996 B	11/01/96	1999–2013	5.0% to 5.4%	$ 16,875	13,495
Series 1998 A	07/01/98	1999–2020	3.75% to 5.25%	$ 24,885	18,210
Series 1998 B Capital Appreciation	07/22/98	2005	4.65%	$ 23,091	27,676
Series 1998 C	08/15/98	2000–2019	3.8% to 5.5%	$ 101,557	101,422
Series 1999 A	08/01/99	2001–2021	5.25% to 5.50%	$ 6,960	6,770
Series 2001 A	11/21/01	2005-2021	4.00% to 5.00%	$ 69,850	69,850
Series 2001 B	11/21/01	2002-2024	3.00% to 5.75%	$ 14,240	14,220
Series 2001 C	11/21/01	2005-2021	variable	$ 30,300	30,300
Total Lease Revenue Bonds Outstanding					342,378
Unamortized Bond Premium					3,671
Total Lease Revenue Bonds Payable					$ 346,049
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures	1988-2002	1998-2041	Variable and 4.45% to 6.7%	$1,250,750	$ 1,219,230
Office Facility Bond Fund	02/01/02	2003-2022	3.5% to 5.125%	$ 8,095	8,095
Total Revenue Bonds Outstanding					1,227,325
Unamortized Bond Premium					48
Total Revenue Bonds Payable					$ 1,227,373
Water Loan Programs:					
Series 1992 A Revolving Loan Recapitalization Program	04/15/92	1993-2004	4.00% to 6.6%	$ 5,065	$ 1,115
Series 1995 Water Refunding	10/04/95	1996-2005	5.125%	$ 8,430	3,020
Total Revenue Bonds Payable					$ 4,135
SBOA Lease Revenue Bonds:					
Series 1994 A	09/01/94	1995-2014	5.0% to 6.25%	$ 3,450	$ 475
Series 1995 A	07/01/95	1996–2015	5.0% to 5.7%	$ 740	170
Series 1996 A	07/01/96	1998–2017	5.5% to 6.0%	$ 1,830	380
Series 1997 A	12/01/97	1999–2018	4.6% to 5.125%	$ 4,150	3,665
Series 1998 A	07/01/98	1999–2020	3.75% to 5.25%	$ 825	725
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 3,543	3,538
Series 1999 A	08/01/99	2001–2020	5.25% to 5.50%	$ 2,495	2,365
Series 2001 B	11/21/01	2004–2023	3.25% to 5.25%	$ 11,540	11,540
Total Lease Revenue Bonds Outstanding					22,858
Unamortized Bond Premium					221
Total Lease Revenue Bonds Payable					$ 23,079
Total Business-type Lease Revenue/ Revenue Bonds Payable					$ 1,254,587

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Principal

Fiscal Year	Student Assistance Programs	1992 A Revolving Loan Recap Program	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1993 B Utah State Building Ownership Authority	1994 A Utah State Building Ownership Authority	1995 A Utah State Building Ownership Authority
2003	$ 36,110	$ 540	$ 1,310	$ 70	$ 300	$ 360	$ 1,710	$ 3,450
2004	4,575	575	1,380	75	315	380	1,805	3,575
2005	8,275	—	1,460	80	330	395	1,895	3,760
2006	23,295	—	1,545	85	345	415	—	3,945
2007	5,530	—	1,640	90	360	440	—	4,155
2008–2012	108,745	—	9,760	530	2,120	2,565	—	—
2013–2017	36,175	—	—	—	495	1,235	—	—
2018–2022	6,365	—	—	—	—	—	—	—
2023–2027	135,000	—	—	—	—	—	—	—
2028–2032	181,055	—	—	—	—	—	—	—
2033–2037	370,100	—	—	—	—	—	—	—
2038–2042	312,100	—	—	—	—	—	—	—
Total	$1,227,325	$ 1,115	$ 17,095	$ 930	$ 4,265	$ 5,790	$ 5,410	$ 18,885

Continues Below

Principal

Fiscal Year	1995 Water Refunding	1996 A Utah State Building Ownership Authority	1996 B Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority	1998 A Utah State Building Ownership Authority	1998 B Utah State Building Ownership Authority	1998 C Utah State Building Ownership Authority	1999A Utah State Building Ownership Authority
2003	$ 955	$ 1,630	$ 945	$ 155	$ 2,370	$ —	$ 50	$ 300
2004	1,005	1,720	995	160	2,485	—	50	310
2005	1,060	1,820	1,040	170	2,615	27,676	55	330
2006	—	1,905	1,095	180	705	—	1,120	345
2007	—	2,010	1,150	190	735	—	1,170	365
2008–2012	—	—	6,705	1,085	4,225	—	42,480	2,130
2013–2017	—	—	1,565	1,400	5,385	—	48,825	2,765
2018–2022	—	—	—	325	415	—	11,210	2,590
2023–2027	—	—	—	—	—	—	—	—
2028–2032	—	—	—	—	—	—	—	—
2033–2037	—	—	—	—	—	—	—	—
2038–2042	—	—	—	—	—	—	—	—
Total	$ 3,020	$ 9,085	$ 13,495	$ 3,665	$ 18,935	$ 27,676	$ 104,960	$ 9,135

Continues Below

Revenue Bond Issues – Primary Government (continued)-
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 2001 A Utah State Building Ownership Authority	Principal: 2001 B Utah State Building Ownership Authority	Principal: 2001 C Utah State Building Ownership Authority	Total Principal Required	Interest Required	Total Amount Required
2003	$ —	$ 10	$ —	$ 50,265	$ 39,887	$ 90,152
2004	—	395	—	19,800	37,883	57,683
2005	2,000	865	2,100	55,926	40,742	96,668
2006	3,175	895	1,100	40,150	35,519	75,669
2007	3,125	935	1,300	23,195	33,383	56,578
2008–2012	17,575	5,250	7,700	210,870	139,668	350,538
2013–2017	22,025	6,415	9,400	135,685	108,140	243,825
2018–2022	21,950	8,100	8,700	59,655	84,532	144,187
2023–2027	—	2,895	—	137,895	73,959	211,854
2028–2032	—	—	—	181,055	61,151	242,206
2033–2037	—	—	—	370,100	40,579	410,679
2038–2042	—	—	—	312,100	18,075	330,175
Total	$ 69,850	$ 25,760	$ 30,300	$ 1,596,696	$ 713,518	$ 2,310,214

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: Utah Housing Corporation	Principal: University of Utah	Principal: Utah State University	Principal: Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2003	$ 108,543	$ 6,974	$ 2,225	$ 4,070	$ 121,812	$ 78,523	$ 200,335
2004	54,426	8,009	1,996	4,346	68,777	78,916	147,693
2005	25,347	8,659	2,101	4,635	40,742	76,968	117,710
2006	28,711	9,289	2,222	4,890	45,112	74,455	119,567
2007	31,116	9,855	1,887	4,750	47,608	72,034	119,642
2008–2012	161,114	55,320	10,089	23,421	249,944	320,277	570,221
2013–2017	157,500	53,210	5,265	13,004	228,979	253,761	482,740
2018–2022	196,606	48,180	120	6,855	251,761	186,287	438,048
2023–2027	232,666	33,771	—	3,024	269,461	112,259	381,720
2028–2032	185,513	16,104	—	2,914	204,531	40,234	244,765
2033–2037	34,545	—	—	—	34,545	6,349	40,894
2038–2042	8,820	—	—	—	8,820	2,042	10,862
2043–2047	2,515	—	—	—	2,515	149	2,664
Total	$ 1,227,422	$ 249,371	$ 25,905	$ 71,909	$ 1,574,607	$ 1,302,254	$ 2,876,861

D. **Conduit Debt Obligations**

In 1985, the State Board of Regents authorized the University of Utah to issue Variable Rate Demand Industrial Development Bonds for the University Park Hotel, a limited partnership separate from the University. The bonds are payable solely from revenues of the University Park Hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2002, $7.665 million of Variable Rate Demand Industrial Development Bonds are outstanding.

E. **Demand Bonds**

The remaining $150 million Series 1999 A and C adjustable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the State's remarketing agent. Conversely, the State has the ability to convert any or all of the Series 1999 A and C general obligation bonds into fixed rate debt, upon not fewer than 15 days notice to bondholders. The remarketing agent is paid a fee equal to .07 percent per annum of the weighted average principal amount of each series of bonds outstanding on a quarterly basis.

In the event the bonds cannot be remarketed, the State has a separate standby bond purchase agreement for the remaining $75 million of Series A and $75 million of Series C with Toronto-Dominion Bank acting through its Houston Agency. The agreement provides an amount sufficient to pay the purchase price of each of the respective series of bonds equal to the principal and up to 39 days accrued interest at a maximum rate of 10 percent per annum. The Standby Agreement also contains a takeout provision for bonds that are held by the bank upon expiration of the credit agreement that will allow the State to convert the bonds to a two-year installment loan with interest payable monthly and principal due at the end of the term. If the installment provision was in place it would cost the State $15 million in interest for both years, with principal paid at the end, assuming all of the bonds were not remarketed and based on the maximum rate. The Standby Agreement is valid through September 12, 2003.

In consideration for the Liquidity Facility, the State is charged 7.5 basis points of the principal outstanding, less any advances outstanding on a quarterly basis. The interest rate for Liquidity Advances is the Federal Funds rate plus one-half percent for the first 30 days. For advances outstanding longer than 30 days or outstanding under the installment provision, the rate charged is the greater of the Federal Funds or prime rate plus a margin dependent upon the amount of time the advance is outstanding, not to exceed 10 percent per annum. As of June 30, 2002, the State had not drawn any funds under the Standby Bond Purchase Agreement.

The State Building Ownership Authority issued $30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

In the case that the bonds cannot be remarketed, the SBOA has a irrevocable direct pay letter of credit with Landesbank Hessen-Thuringen Girozentrale (Helaba) acting through its New York Branch in the amount of $30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 17.5 basis points paid on a quarterly basis. The letter of credit expires on November 21, 2004, and as of June 30, 2002, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

The letter of credit also has a takeout provision for bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the takeout provision were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of $8.406 million a year for five years, based on the maximum rate.

The Student Loan Purchase Program had $240.555 million of demand bonds outstanding at June 30, 2002, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

An unused irrevocable direct-pay letter of credit expiring November 15, 2004, in the amount of $37.462 million supports the Series 1993 A bonds of $35 million. The standby bond purchase agreements include the amount of $110.677 million expiring November 15, 2005, to support Series 1988 C and 1995 L bonds of $104.5 million, and the amount of $108.42 million expiring May 16, 2005, to support the Series 1996 Q and 1997 R bonds of $101.055 million. As of June 30, 2002, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

The University of Utah (component unit) Series 1997 A bonds in the amount of $18.59 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 3 percent, which is the rate in effect of June 30, 2002.

In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable letter of credit to pay the purchase price plus accrued interest on the bonds delivered to it. The letter of credit with the Bank of Nova Scotia is valid through June 30, 2005. As of June 30, 2002, the University had not drawn any funds under the letter of credit.

F. **Capital Appreciation Bonds**

On August 15, 1998, the Utah State Building Ownership Authority issued $23.091 million of 1998 Series B Capital Appreciation lease revenue bonds. The interest on the bonds is accreted and added to the bonds payable. The accretion for the year ended June 30, 2002, was $1.243 million, and at June 30, 2002, the total capital appreciation bonds payable including accreted interest was $27.676 million.

G. Defeased Bonds and Bond Refunding

The State issued on July 2, 2001, General Obligation Bond Series 2001 B to refund $208 million of its Series 1999 A, B, C, and D variable rate debt to lock in a fixed long-term rate. The variable rate debt was repaid on a bond interest payment date resulting in a current refunding. The variable rate debt had no minimum interest rate, but had a maximum interest rate of 10 percent; the refunding bonds have an effective interest rate of 4.18 percent. Because the refunded debt had a variable rate, no attempt has been made to calculate the cash flow savings or economic savings related to this transaction. The State did not have any prior defeased General Obligation bonds outstanding.

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2002, $105.615 million revenue bonds outstanding are considered defeased.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2002, $35.57 million of college and university bonds outstanding and $6.25 million Utah Housing Corporation bonds outstanding are considered defeased.

H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 30 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Principal: University of Utah	Principal: Utah State University	Principal: Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2003	$ 402	$ 5,723	$ 1,123	$ 7,248	$ 1,351	$ 8,599
2004	436	330	760	1,526	1,249	2,775
2005	473	291	345	1,109	1,171	2,280
2006	419	293	329	1,041	1,103	2,144
2007	357	252	321	930	1,041	1,971
2008–2012	2,304	864	1,908	5,076	4,158	9,234
2013–2017	3,492	—	899	4,391	2,473	6,864
2018–2022	3,175	—	544	3,719	659	4,378
2023–2027	—	—	423	423	68	491
2028–2032	—	—	80	80	3	83
Total	$ 11,058	$ 7,753	$ 6,732	$ 25,543	$ 13,276	$ 38,819

I. Contracts Payable

Component unit capital leases/contracts payable include $3.531 million in life annuity contracts.

NOTE 11. GOVERNMENTAL FUND BALANCES —RESERVED AND DESIGNATED

The State's reserved fund balances represent: 1) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or 2) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2002, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	$ 3,087	$ —	$ 3,087
Governor	4,876	1,936	6,812
Elected Officials	1,877	369	2,246
Administrative Services	3,400	22	3,422
Tax Commission	6,255	10,396	16,651
Human Services	3,651	5,580	9,231
Corrections	1,557	—	1,557
Public Safety	5,385	6,471	11,856
Courts	1,829	3,382	5,211
Health	3,937	2,020	5,957
Environmental Quality	1,841	2,191	4,032
Employment and Family Services	—	6,852	6,852
Natural Resources	17,231	17,404	34,635
Community and Economic Development	2,293	4,376	6,669
Business, Labor, and Agriculture	8,195	3,470	11,665
Industrial Assistance Account	—	20,372	20,372
Loans to Internal Service Funds	—	44,638	44,638
Tobacco Settlement Funds	—	12,338	12,338
Oil Overcharge Funds	—	8,885	8,885
Other Purposes	200	5,158	5,358
Total	$ 65,614	$ 155,860	$ 221,474
Uniform School Fund:			
Minimum School Program	$ 20,443	$ —	$ 20,443
State Office of Education	5,802	137	5,939
School Building Program	—	9,926	9,926
School Land Interest	—	7,583	7,583
Total	$ 26,245	$ 17,646	$ 43,891
Transportation Fund:			
Transportation	$ 2,238	$ —	$ 2,238
Public Safety	—	6,021	6,021
Corridor Preservation	—	18,845	18,845
Aeronautical Programs	—	7,685	7,685
Salt Lake County Road Construction	—	10,768	10,768
Total	$ 2,238	$ 43,319	$ 45,557
Centennial Highway Fund:			
Bond Proceeds	$ —	$ 158,808	$ 158,808
Trust Lands Fund:			
Funds Held as Permanent Investments	$ —	$ 360,376	$ 360,376
Other Governmental Funds:			
Capital Projects	$ 164,300	$ 87,928	$ 252,228
Debt Service	—	14,709	14,709
Tobacco Settlement Funds	—	41,531	41,531
Environmental Reclamation	—	17,029	17,029
Other Purposes	—	6,437	6,437
Total	$ 164,300	$ 167,634	$ 331,934

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Other Governmental Funds	Total Governmental Funds
Designated for:					
Budgetary Reserve (Rainy Day) Account	$ 19,453	$ —	$ —	$ —	$ 19,453
Postemployment and Other Liabilities	124,026	138,328	39,165	—	301,519
Fiscal Year 2003 Appropriations	3,072	—	—	657	3,729
Capital Projects	—	—	—	52,959	52,959
Debt Service	—	—	—	8,173	8,173
Total	$ 146,551	$ 138,328	$ 39,165	$ 61,789	$ 385,833

NOTE 12. DEFICIT NET ASSETS

Funds reporting a deficit total net assets position at June 30, 2002, are (in thousands):

Private Purpose Trust Funds:

Employers' Reinsurance	$ 266,642
Petroleum Underground Storage Tank	$ 60,718

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Underground Storage Tank Fund covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2002, are (in thousands):

Internal Service Funds:

General Services	$ 1,088
Fleet Operations	$ 31,873

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act.* Interfund transfers for the fiscal year ended June 30, 2002, are as follows (in thousands):

Transfers In:

	Governmental Funds					
Transfers Out:	**General Fund**	**Uniform School Fund**	**Trans-portation Fund**	**Centennial Highway Fund**	**Trust Lands Fund**	**Nonmajor Governmental Funds**
General Fund	$ —	$ 107,279	$ 28,052	$ 124,800	$ 13	$ 56,125
Uniform School Fund	147,652	—	—	—	—	41,671
Transportation Fund	30,618	—	—	53,495	—	2,241
Centennial Highway Fund	—	—	8,079	—	—	85,306
Nonmajor Governmental Funds	1,755	19,000	—	—	—	13,524
Water Loan Programs	2,426	—	—	—	—	—
Nonmajor Enterprise Funds	34,942	—	—	—	—	—
Internal Service Funds	4,557	—	—	—	—	—
Private Purpose Trust Funds	1,579	—	—	—	—	—
Total Transfers In	$ 223,529	$ 126,279	$ 36,131	$ 178,295	$ 13	$ 198,867

Continues Below

	Enterprise Funds			
Transfers Out:	**Water Loan Programs**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers Out**
General Fund	$ 1,603	$ 9,407	$ 3,400	$ 330,679
Uniform School Fund	—	—	65	189,388
Transportation Fund	—	—	166	86,520
Centennial Highway Fund	—	—	—	93,385
Nonmajor Governmental Funds	—	—	—	34,279
Water Loan Programs	—	—	—	2,426
Nonmajor Enterprise Funds	—	—	—	34,942
Internal Service Funds	—	—	—	4,557
Private Purpose Trust Funds	—	—	—	1,579
Total Transfers In	$ 1,603	$ 9,407	$ 3,631	$ 777,755

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2002, the Legislature authorized the following transfers to subsidize lower than expected revenues:

- $105.316 million from the Budgetary Reserve Account (General Fund) to the Uniform School Fund.
- $19.0 million from the Utah Sports Authority (nonmajor governmental fund) to the Uniform School Fund.
- $9.5 million from the Utah Sports Authority (nonmajor governmental fund) to the Capital Projects Fund (nonmajor governmental fund).
- $4.557 million from the Internal Service Funds to the General Fund.
- $1.579 million from the Wildland Fire Suppression Trust Fund (private purpose trust fund) to the General Fund.

In addition, the Legislature authorized payments to certain component units of the State. These amounts are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities:

- $633.956 million to the Colleges and Universities.
- $3.010 million to the Comprehensive Health Insurance Pool.
- $553 thousand to the Utah State Fairpark Corporation.

NOTE 14. SPECIAL AND UNUSUAL ITEMS

A. **Special Items**

- As approved by the Legislature, the Salt Lake Olympic Organizing Committee (SLOC) purchased the winter sports park and equipment from the Utah Sports Authority (nonmajor governmental fund) for $59 million, on July 14, 1999. SLOC made a $1 million down payment at that time, and the balance of $58 million was paid on February 25, 2002. SLOC also paid interest for the period between January 10, 2002, and February 25, 2002, which totaled $512 thousand. On March 15, 2002, $29.772 million of the SLOC payment was redistributed to the local cities and towns, which included interest on their proportionate share. The current year sales proceeds and interest, and the distribution to local cities and towns represent flows of current financial resources and therefore are reported on the governmental fund financial statements. However, under the accrual basis of accounting, only the distribution of proceeds to local cities and towns is reported in the government-wide Statement of Activities since the sale occurred in a prior year.

- The Utah Technology Finance Corporation (nonmajor component unit) transferred $6.092 million to the State of Utah and $3.852 million of net assets of federal loan programs to an unrelated non-profit corporation as part of the Corporation's liquidation proceedings.

B. **Unusual Item**

The Unemployment Compensation Fund (major enterprise fund) received a $62.553 million distribution of federal unemployment taxes under the Federal *Reed Act.* This distribution was significantly higher than those of prior years.

NOTE 15. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. **Litigation**

- The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages. If the State were ultimately held liable, the estimated liability could be up to approximately $50 million plus interest and attorneys' fees.

- A suit filed by the United Mine Workers of America claims the State Legislature wrongfully reallocated revenue generated from the *Utah Enabling Act's* Miners Hospital Grant lands to the University of Utah Medical Center. The plaintiffs seek a judgment requiring pay back of the diverted proceeds into a trust, and requiring the trust to be used only on a hospital for miners. If the State were ultimately held liable, the liability could range from $1 million to $25 million.

- A suit was filed by a landowner alleging breach of contract by the Utah State Armory Board and the Utah National Guard related to the sale of property. The plaintiff seeks damages of approximately $19 million plus attorney's fees.

- There are currently three separate suits or claims pending seeking refunds of taxes paid. In the event of adverse rulings on all of these issues including their certification as class-action suits, the State estimates the liability could be as much as $45 million.

- In addition to the items mentioned above, the State is contesting other legal actions totaling approximately $8 million plus attorney fees and interest in some cases.

B. **Contingencies**

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, identified questioned costs are immaterial. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2002, is in process and management expects proposed disallowances to be immaterial.

- Management's estimated liability for the Underground Petroleum Storage Tank Fund (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.

- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately $20 million per year for fiscal years 2003 through 2007. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.

- The State is totally self-insured against liability claims and up to $2.5 million in property claims. According to an actuarial study and other known factors, $42.665 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Administrative Services Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953,* as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guarantied Bonds.

In the event a school board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guarantied Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guarantied Bonds for any significant period of time.

Local school boards have $1.139 billion principal amount of Guarantied Bonds outstanding at June 30, 2002. The State cannot predict the amount of bonds that may be guarantied in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most smaller manufacturers have joined the agreement. The State received $32.552 million from tobacco companies in fiscal year 2002 and expects to receive approximately $31.9 million in fiscal year 2003. Annual payments are expected to continue for the next ten years but will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. Commitments

- At June 30, 2002, the General Fund had loan commitments of approximately $184 thousand.

- Utah Retirement Systems (pension trust funds) has at December 31, 2001, committed to fund certain alternative investment partnerships and real estate projects for an amount of $1.102 billion. Funding of $616 million has been provided, leaving an unfunded commitment of $486 million as of December 31, 2001.

- As of June 30, 2002, the Utah Housing Corporation (component unit) has committed to purchase mortgages under the Single-Family Mortgage Purchase Program in the amount of $23.572 million.

- At June 30, 2002, the Enterprise Funds had loan and grant commitments of approximately $111 million ($96 million in loans, $15 million in grants).

- At June 30, 2002, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately $1.6 billion.

- At June 30, 2002, the Department of Transportation had construction and other contract commitments of $504.885 million, of which $332.277 million is for Centennial Highway Fund (special revenue fund) projects and $172.608 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 16. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide a single, coordinated public safety communication system in an eight-county area in Northern Utah. The fiscal year ending June 30, 2002, was UCAN's fourth year of operations.

UCAN's governing board is made of ten representatives from local governments and five representatives from state agencies. The chairman of the board of UCAN is the Chief of the South Jordan City Fire Department. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of $185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN has $16.087 million of certificates of participation debt outstanding, which was issued to purchase and install microwave towers and equipment. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the State Auditor's Office.

NOTE 17. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. Utah Retirement Systems

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953,* as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans administered by it. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2001, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Firefighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;
- The Public Safety Retirement System, which is a defined-benefit mixed cost-sharing and agent, multiple-employer retirement system;
- The Judges Retirement System and the Governors and Legislative Pension Plan, which are defined-benefit single-employer public employee retirement systems; and
- The 401(k) and 457 Plans, which are deferred compensation plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service Required and/or Age Eligible for Benefit	30 years any age *20 years age 60 *10 years age 62 4 years age 65	30 years any age *25 years any age *20 years age 60 *10 years age 62 4 years age 65	20 years any age 10 years age 60 4 years age 65		25 years any age *20 years age 55 10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.10% to June 1967 1.25% July 1967 to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

***With full actuarial reductions**

Former governors at age 65 receive $1,060 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of $23.60 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees, insurance premium taxes, or legislative appropriations. Below is a summary of system participants.

Participants
December 31, 2001

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan
Number of participating:						
Employers	164	374	116	39	1	1
Members:						
Active	3,760	81,385	6,905	1,498	105	92
Terminated vested	1,539	19,067	874	50	4	89
Retirees and beneficiaries:						
Service benefits	7,683	19,164	2,542	799	78	229
Disability benefits	165	—	47	68	—	—

Employer contribution rates consist of *(1)* an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current service year) and *(2)* an amount for amortization of the unfunded actuarial accrued liability over a period representing the remainder of the original 30 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years. Implementation of GASB Statement 34 has resulted in reclassification of some entities for the year ended June 30, 2002.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Total All Systems
Primary Government:						
2002	$ 5,777	$ 93,037	$ 25,921	$ 58	$ 928	$ 125,721
2001	$ 4,902	$ 78,752	$ 19,772	$ 56	$ 1,615	$ 105,097
2000	$ 4,943	$ 75,769	$ 19,717	$ 70	$ 1,572	$ 102,071
1999	$ 5,005	$ 72,361	$ 17,075	$ 67	$ 1,868	$ 96,376
1998	$ 5,082	$ 67,040	$ 16,106	$ 58	$ 1,899	$ 90,185
Component Units:						
Colleges and Universities:						
2002	$ 1,904	$ 28,028	$ 399	$ —	$ —	$ 30,331
2001	$ 2,398	$ 33,575	$ 442	$ —	$ —	$ 36,415
2000	$ 2,469	$ 32,839	$ 445	$ —	$ —	$ 35,753
1999	$ 2,457	$ 30,789	$ 356	$ —	$ —	$ 33,602
1998	$ 2,478	$ 29,214	$ 344	$ —	$ —	$ 32,036
Other:						
2002	$ 43	$ 258	$ —	$ —	$ —	$ 301
2001	$ 50	$ 352	$ —	$ —	$ —	$ 402
2000	$ 143	$ 2,416	$ —	$ —	$ —	$ 2,559
1999	$ 134	$ 2,158	$ —	$ —	$ —	$ 2,292
1998	$ 130	$ 1,989	$ —	$ —	$ —	$ 2,119
Total Primary Government and Component Units:						
2002	$ 7,724	$ 121,323	$ 26,320	$ 58	$ 928	$ 156,353
2001	$ 7,350	$ 112,679	$ 20,214	$ 56	$ 1,615	$ 141,914
2000	$ 7,555	$ 111,024	$ 20,162	$ 70	$ 1,572	$ 140,383
1999	$ 7,596	$ 105,308	$ 17,431	$ 67	$ 1,868	$ 132,270
1998	$ 7,690	$ 98,243	$ 16,450	$ 58	$ 1,899	$ 124,340

The following schedule summarizes contribution rates in effect as of December 31, 2001:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	4.19% – 5.91%	—
Noncontributory	—	8.20% – 10.40%	—
Public Safety:			
Contributory	10.50% – 13.74%	2.41% – 18.21%	—
Noncontributory	—	14.08% – 30.72%	—
Firefighters:			
Group A	6.77%	—	8.28%
Group B	8.43%	—	8.28%
Judges	5.55%	5.55%	18.93%
Governors and Legislative	—	—	—

401(k) and 457 Deferred Compensation Plans

The 401(k) Plan and 457 Plan administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems for employees of employers which have adopted the 401(k) and 457 Plans. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 329 employers participating in the 401(k) Plan and 153 employers participating in the 457 Plan. There are 129,524 employees and retirees of those employers who are members of the 401(k) Plan and 9,436 who are members of the 457 Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances. The 401(k) Plan and 457 Plan account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2002, by employees and employers are as follows: for Primary Government, $48.071 million and $15.230 million; for Component Units – Colleges and Universities, $3.305 million and $4.161 million; for Component Units – Other, $130 thousand and $44 thousand; and the combined total for all is $51.506 million and $19.435 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis which approximates fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 11 percent of the net assets held in trust for the pension benefits are invested in bonds of the U.S. Government and its instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose fair value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan	401(k) Plan	457 Plan	Total December 31, 2001
Receivables:									
Member Contributions	$ 431	$ —	$ 178	$ 241	$ —	$ —	$ —	$ —	$ 850
Employer Contributions	410	19,494	1,773	1,806	147	—	—	—	23,630
Court Fees and Fire Insurance Premium	—	—	—	—	23	—	—	—	23
Investments	10,399	121,925	15,143	6,246	1,019	129	23,877	—	178,738
Total Receivables	$ 11,240	$ 141,419	$ 17,094	$ 8,293	$ 1,189	$ 129	$ 23,877	$ 0	$ 203,241
Investments:									
Bonds	$ 232,529	$ 2,726,567	$ 338,651	$ 139,692	$ 22,777	$ 2,881	$ 447,932	$ 61,242	$ 3,972,271
Equity Investments	474,591	5,564,908	691,187	285,111	46,488	5,880	821,153	112,391	8,001,709
Venture Capital	45,497	533,487	66,262	27,333	4,457	564	—	—	677,600
Real Estate	72,280	847,524	105,267	43,422	7,080	896	—	—	1,076,469
Mortgage Loans	225	2,647	330	136	22	3	—	—	3,363
Invested Securities Lending Collateral	105,414	1,236,060	153,526	63,328	10,326	1,306	28,099	4,012	1,602,071
Investment Contracts	—	—	—	—	—	—	36,705	25,913	62,618
Total Investments	$ 930,536	$10,911,193	$ 1,355,223	$ 559,022	$ 91,150	$ 11,530	$1,333,889	$ 203,558	$15,396,101

Actuarial Methods and Assumptions

The latest actuarial valuation and study was dated January 1, 2001. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by that study conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets for that date is based on a smoothed expected investment income rate of 8 percent. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, closed period. An inflation rate of 3 percent is used for all systems. Post retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

(Table presented on next page)

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan
Actuarial Value of Assets:						
January 1, 2000	$ 878,190	$ 9,237,447	$ 1,146,331	$ 483,374	$ 78,130	$ 10,946
January 1, 2001	$ 924,573	$ 10,361,333	$ 1,286,996	$ 536,503	$ 87,139	$ 11,569
December 31, 2001	$ 945,723	$ 11,086,134	$ 1,376,466	$ 569,151	$ 92,649	$ 11,710
Actuarial Accrued Liability (AAL):						
January 1, 2000	$ 894,484	$ 9,006,308	$ 1,105,166	$ 419,157	$ 68,134	$ 8,253
January 1, 2001	$ 935,799	$ 9,933,514	$ 1,206,876	$ 455,456	$ 73,962	$ 7,908
December 31, 2001	$ 962,035	$ 10,728,754	$ 1,305,903	$ 491,331	$ 79,932	$ 7,839
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2000	$ 16,294	$ (231,139)	$ (41,165)	$ (64,217)	$ (9,996)	$ (2,693)
January 1, 2001	$ 11,226	$ (427,819)	$ (80,120)	$ (81,047)	$ (13,177)	$ (3,661)
December 31, 2001	$ 16,312	$ (357,380)	$ (70,563)	$ (77,820)	$ (12,717)	$ (3,871)
Funding Ratios:						
January 1, 2000	98.2%	102.6%	103.7%	115.3%	114.7%	132.6%
January 1, 2001	98.8%	104.3%	106.6%	117.8%	117.8%	146.3%
December 31, 2001	98.3%	103.3%	105.4%	115.8%	115.9%	149.4%
Annual Covered Payroll:						
January 1, 2000	$ 137,561	$ 2,499,087	$ 226,057	$ 57,561	$ 10,104	$ 468
January 1, 2001	$ 141,067	$ 2,659,200	$ 247,985	$ 63,274	$ 10,397	$ 464
December 31, 2001	$ 142,882	$ 2,832,060	$ 260,783	$ 67,192	$ 10,927	$ 556
UAAL as a Percent of Covered Payroll:						
January 1, 2000	11.8%	(9.2)%	(18.2)%	(111.6)%	(98.9)%	(575.4)%
January 1, 2001	8.0%	(16.1)%	(32.3)%	(128.1)%	(126.7)%	(789.0)%
December 31, 2001	11.4%	(12.6)%	(27.1)%	(115.8)%	(116.4)%	(696.2)%

B. **Teachers Insurance and Annuity Association**

The Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA–CREF), privately administered defined-contribution retirement plans, provide individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and employees of the Student Assistance Programs. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The following table presents the State of Utah's actual employer contributions to the TIAA–CREF retirement system:

State of Utah's Employer Contributions
For the Years Ended June 30, 2001 and 2002
(Expressed in Thousands)

	Contribution Required and Paid 2001	Contribution Required and Paid 2002
Primary Government	$ 611	$ 572
Component Units:		
College and University	83,880	91,708
Total	$ 84,491	$ 92,280

NOTE 18. POSTEMPLOYMENT BENEFITS

At the option of the individual state departments, employees may be offered participation in a post-retirement benefits program, as set forth in Section 67–19–14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. Upon retirement most employees, including those age 65 and over, may be paid for 25 percent of unused accumulated sick leave at the employee's current rate of pay. In addition, the employee may receive health and life insurance coverage up to age 65, but not to exceed five years. If the employee has not reached age 65 after the five-year limitation is reached, they may exchange one sick leave day in excess of 60 days, after the 25 percent payout, for one month of paid health and life insurance coverage, or after age 65 spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of June 30, 2002, there were 1,492 individuals on the program. The insurance coverage is paid 100 percent by the State for individuals retiring before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The State has recorded an estimated liability for current employees who will eventually retire in addition to an estimated liability for employees who have already retired. The estimated 25 percent sick leave payouts at retirement are included in the liability for compensated absences. The postemployment benefits liability consists of the estimated liability for health and life insurance benefits. Charges to agency budgets are made on an ongoing basis to fund the current payments for these benefits and compensated absences. For the year ended June 30, 2002, the cumulative postemployment benefits liability was $213.633 million, and $43.977 million in postemployment benefits expenditures were recognized. In accordance with state law, accrued tax revenues are designated at yearend to fund postemployment benefits, compensated absences, and other liabilities. At June 30, 2002, net designated accrued taxes were $301.519 million.

A liability is also reported in the Pension Trust Funds of $1.565 million which will be liquidated by assets of Utah Retirement Systems.

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-Term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three month waiting period and are paid 100 percent by the program. As of June 30, 2002, there are 315 state employees receiving benefits. The program is funded by paying premiums to the Employees Group Insurance Fund (internal service fund), where assets are set aside for future payments. For the year ended June 30, 2002, the State paid $4.351 million in premiums and the program has $37.686 million in assets.

The colleges and universities offer early retirement incentives, as approved by their boards of trustees, which may provide health, dental, and life insurance; incentive pay or stipends; or long-term disability. Eligibility requirements differ, depending on the college or university. In general, the employee must be at least 52–60 years of age with a minimum of 15–16 years of service. Some of the colleges and universities also require that the sum of the employee's age and years of service be at least 75. The employee may receive these benefits up to age 65 but not to exceed 5–7 years. The ranges for incentive and stipend pay are from 14.28 percent to 30 percent of the employee's salary upon retirement. The benefits are funded on a pay-as-you-go basis. As of June 30, 2002, there are 506 individuals participating in the programs, and $10.774 million was expended during the year. The total liability for postemployment benefits and compensated absences for the college and universities at June 30, 2002, was $66.723 million. The postemployment benefits portion of the cumulative liability was $19.210 million.

NOTE 19. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management and Employees Group Insurance Funds (internal service funds). The State is the predominant participant in these pools. The Risk Management Fund manages the general property and liability risk of the State, and the Employees Group Insurance Fund manages the health insurance programs of the State. The University of Utah and Utah State University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains self-insurance funds to manage auto/physical damage, and medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, group medical and dental, and some environmental claims. They also service the general risk claims for many local school districts and local health departments within the State. All funds, agencies, and public authorities of the State may participate in the State's Risk Management and Employees Group Insurance Funds. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The liability is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Employees Group Insurance Fund claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. Risk Management claims liabilities are reported at an 80 percent statistical confidence level. Employees Group Insurance Fund long-term disability benefit reserves are reported using a discount rate of 7 percent.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah and Utah State University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University Hospital have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2001, and June 30, 2002:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2001	$ 36,860	$ 14,914	$ (7,447)	$ 44,327
2002	$ 44,327	$ 16,730	$ (14,243)	$ 46,814
Employees Group Insurance:				
2001	$ 68,124	$ 249,214	$(242,939)	$ 74,399
2002	$ 74,399	$ 292,401	$(286,905)	$ 79,895
College and University Self-Insurance:				
2001	$ 20,844	$ 89,613	$ (91,059)	$ 19,398
2002	$ 19,398	$ 100,036	$ (91,576)	$ 27,858

NOTE 20. SEGMENT INFORMATION

The Student Loan Program issues revenue bonds with the objective of providing funds to student borrowers and to lending institutions to assist students in obtaining a post-secondary education. The Program has issued revenue bonds under the authority of two General Indentures. The General Indentures are accounted for in a single enterprise fund, but investors in the various revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each indenture is presented below (in thousands):

	1988 Revenue Bond Fund	1993 Revenue Bond Fund	Total
Condensed Statement of Net Assets			
Assets			
Current Assets	$ 156,330	$ 241,845	$ 398,175
Capital Assets	61	—	61
Other Noncurrent Assets	345,227	625,562	970,789
Total Assets	501,618	867,407	1,369,025
Liabilities			
Current Liabilities	34,849	7,102	41,951
Noncurrent Liabilities	392,731	827,463	1,220,194
Total Liabilities	427,580	834,565	1,262,145
Net Assets			
Restricted	74,038	32,842	106,880
Total Net Assets	$ 74,038	$ 32,842	$ 106,880
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues:			
Interest on Student Loans	$ 19,356	$ 34,441	$ 53,797
Federal Allowances	5,929	3,695	9,624
Other	461	705	1,166
Total Operating Revenue	25,746	38,841	64,587
Operating Expenses:			
General Expense	18,972	31,925	50,897
Depreciation	406	—	406
Total Operating Expenses	19,378	31,925	51,303
Operating Income	6,368	6,916	13,284
Non Operating Investment Income	2,710	4,825	7,535
Change in Net Asset	9,078	11,741	20,819
Net Assets – Beginning	64,960	21,101	86,061
Net Assets – Ending	$ 74,038	$ 32,842	$ 106,880
Condensed Statement of Cash Flows			
Net Cash Provided (used) by:			
Operating Activities	$ 49,809	$ (97,408)	$ (47,599)
Noncapital Financing Activities	(17,383)	168,904	151,521
Capital and Related Financing Activities	(59)	—	(59)
Investing Activities	(31,528)	(72,011)	(103,539)
Net Increase (Decrease)	839	(515)	324
Beginning Cash and Cash Equivalents	4,393	4,122	8,515
Ending Cash and Cash Equivalents	$ 5,232	$ 3,607	$ 8,839

NOTE 21. SUBSEQUENT EVENTS

On July 15, 2002, the State issued $253.1 million of general obligation refunding bonds Series 2002 B. Proceeds of the bonds together with other funds were deposited into an irrevocable trust escrow account to advance refund portions of previously issued general obligation bonds in the following amounts: $77.675 million of Series 1997 E bonds; $100.675 million of Series 1997 F bonds; and $85.325 million of Series 1998 A bonds.

The Student Loan Purchase Program issued additional Student Loan Revenue Bonds under the authority of the 1993 Revenue Bonds General Indenture, Tenth Supplemental Indenture in the amount of $35.85 million dated September 1, 2002. The bonds are special obligation bonds of the Board and are secured, as provided by the indenture, by all assets of the 1993 Revenue Bond Fund and the revenues and receipts derived from such assets.

Subsequent to June 30, 2002, the Utah Housing Corporation (major component unit) issued $19.0 million Single-Family Mortgage Purchase Variable Rate Bonds, Series D, maturing on July 1, 2004, through 2010 and January 1, and July 1, 2033, interest at a variable rate adjusted weekly, and issued $6.0 million Single-Family Mortgage Purchase Fixed Rate Bonds, 2002 Series D, maturing on July 1, 2018 and 2023, at interest rates of 5 percent to 5.35 percent.

In July 2002, Utah State University (major component unit) issued $23.735 million Refunding and Research Revenue Bonds Series 2002 A. The bond proceeds will be used to acquire, construct, furnish and equip three research facilities including related office space. A portion of the funds is also being used to advance refund $3.515 million of outstanding Research and Refunding Revenue Bonds, Series 1995 A, which mature on December 1 of 2006 through 2010. Interest rates on the bonds range from 2.50 percent to 5.25 percent with interest and principal payments from December 2002 through 2017.